

THE COLLOQUIUM

SEPTEMBER 2008 EDITION

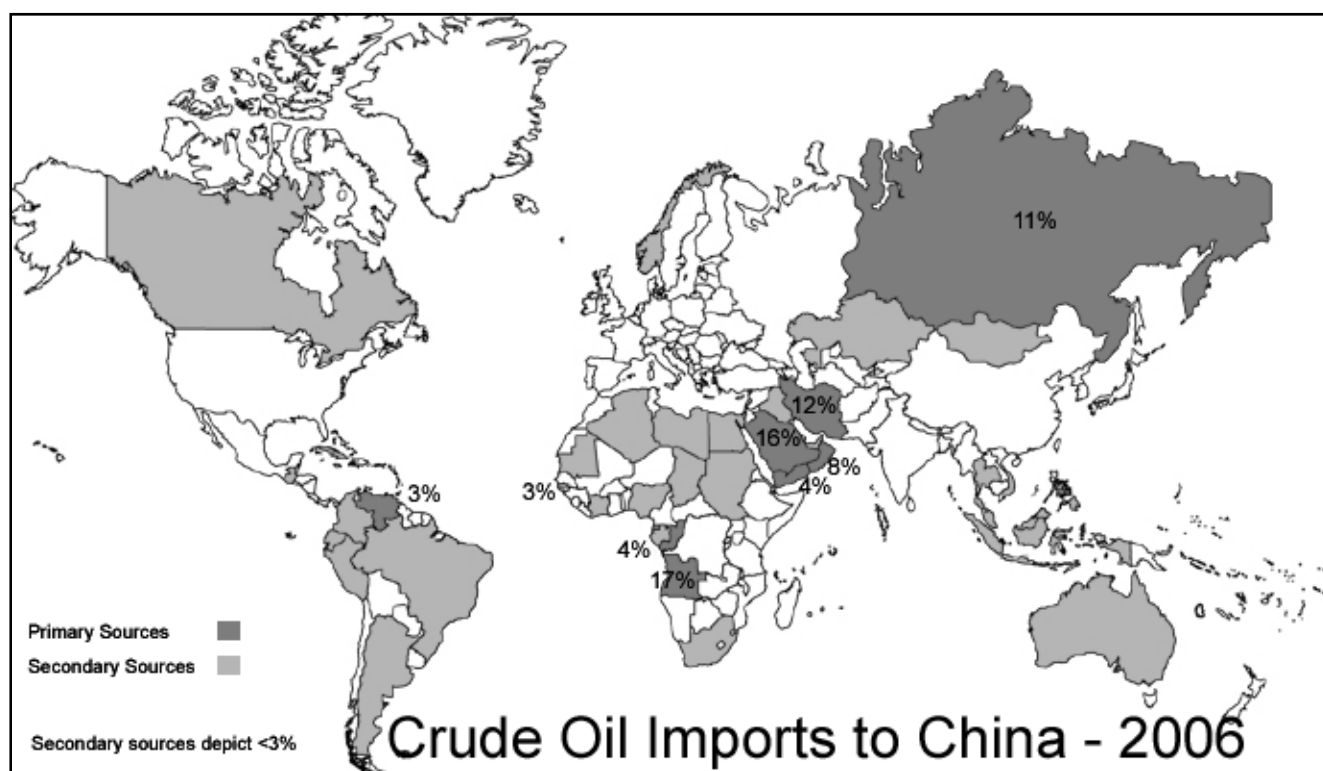
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VOL. 3 / 2

Version: 23 September 2008

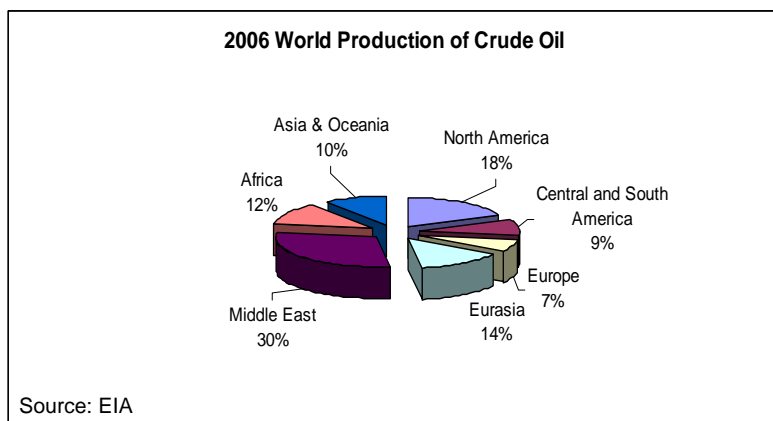
Feigned Ignorance is Bliss: Chinese Energy Investments in Africa

By LCDR Cindy Hurst



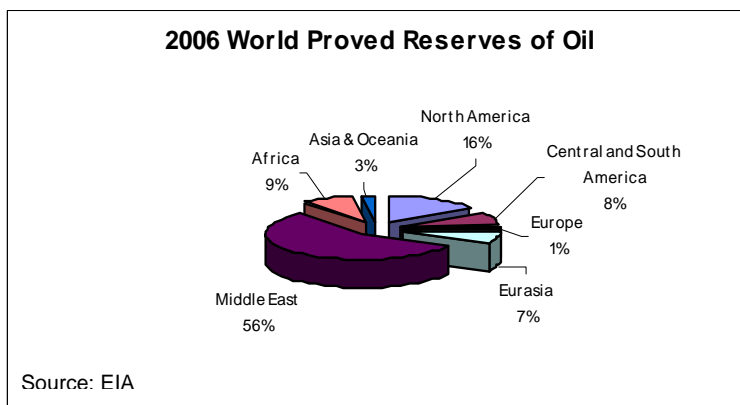
As the world's demand for finite supplies of fossil fuels increases, tensions among nations competing for these resources are escalating. One consequence of increased competition is the temptation to lower business and humanitarian scruples for dealing with energy producing nations to get access to resources at any cost. One of the countries under international scrutiny for such suspect business practices in acquiring energy is China.

China was self sufficient in meeting its oil needs for five decades, relying on the massive oil reserves of the Daqing oil fields in the far north of the country. However, dramatic economic growth over the last two decades in China has sparked a huge increase in energy consumption which domestic production and reserves can no longer support. With a growth rate of nine to ten percent per year, China has few choices but to reach out well beyond its borders to secure future energy supplies to keep its economy viable.



Consequently, to meet its energy needs, China now imports approximately 50 percent of its oil from the Middle East. Unfortunately, since the Middle East produces 30 percent of the world's oil, international competition for oil from this region is extreme. As noted

by Zhao Zhiming, Vice Director of China Petroleum and Petroleum Chemical Equipment Industry Association, "The strategic energy supply of the Middle East has already been scrambled by developed nations."¹ As a result, China has mounted an aggressive effort to find energy sources elsewhere which has included Africa. The result has been that today, approximately 30 percent of China's oil and gas imports come from Africa, and this figure will likely rise dramatically in the future.



While Africa possesses only approximately nine percent of the world's proven reserves, compared to about 56 percent in the Middle East, African reserves remain largely untapped and vast potential oil-producing regions are as yet

unexplored. According to a study conducted by the U.S. Department of Energy, oil production in Africa could rise 91 percent between 2002 and 2025.² With such a strong outlook in Africa, Zhao said, “We wish to increase our imports of oil and gas from Africa from 35 to 40 percent in the next five to 10 years.”³

The key Chinese economic penetration of Africa has been the result of three factors: first, Chinese willingness to work and develop areas that other foreign entities considered too dangerous or too risky; second, a willingness for the Chinese state to provide economic and material assistance to underdeveloped countries desperately in need of improvements to infrastructure and investment capital specifically in exchange for exploration and development privileges; and third, a propensity for turning a blind eye to human rights abuses and government corruption as a quid pro quo for access to resources.

The Impact of Chinese Engagement in Africa

The three factors noted above have fueled bitter policy debate regarding whether China’s influence on Africa “does more good than harm.” However, “harm” in this case is clearly in the eye of the beholder. Many conclusions regarding Chinese influence have been formulated from observations perceived through the prism of Western interests which view the emergence of China as a foreboding economic competitor on a massive scale. Among such are those in the U.S. who argue that China’s aggressive quest for oil jeopardizes U.S. energy access to needed resources through increased competition, while also decreasing U.S. influence in regions the resources of which will be increasingly vital to its own economic well being. Others argue from a more centrist view that the long term impact of Chinese influence in Africa will cause damage to the region due to a pronounced Chinese willingness to ignore government corruption and government sponsored human rights abuses together with few reservations on supplying arms to a region already awash in weapons in exchange for access to resources. Both factors, it is argued, contribute to increased human rights abuses and overall suffering.

Countering such arguments are those who assert that poor countries hungry for capital investment will never escape the human misery that attends the abject poverty characteristic of much of Africa unless nations like China are willing to take risks to both pump capital into them for development while also building needed infrastructure and forming trade relationships.

Growing Ties and Increased Infrastructure

The merits of such debate often fail to take into account that Chinese engagement with Africa is not a new development. Irrespective of the highly visible and dramatic rise of China's initiatives in recent years, it should be noted that the Chinese have had diplomatic ties and investment programs in Africa since the 1950s. During the Cold War, China developed these ties primarily to create a diplomatic power-base as a counterbalance to both U.S. as well as Soviet influence, and for the practical reason of creating markets for its own state-owned enterprises. Subsequently, China has provided at least 53 countries in Africa various economic grants, interest-free loans, and preferential loans. However, since the end of the Cold War, Chinese interest in Africa has exploded with hugely expanded efforts aimed at engaging African nations through diplomacy and economic ventures to increase its trade relationships and influence in all parts of the African continent. Especially notable, for example, in November 2006, it hosted the China-Africa Cooperation Forum, a first-of-its-kind meeting in which representatives from 48 African countries convened in Beijing. This meeting laid the ground work for full-blown cooperation on the energy front.⁴

In contrast, Western nations have often avoided conducting business in many parts of Africa because of the unstable political environment in many areas and the technical risks associated with investing in unstable and marginally developed nations. China, on the other hand, has demonstrated a willingness to take great risk and to manage the challenges in ways Westerners have tended to view as insurmountable. It has done so by investing in the domestic infrastructure of nations in which they intend to do business by developing domestic telecommunication capabilities, building roads, bridges, oil refineries, and other energy development facilities. Such investment not only benefits the host nation population by improving the overall national infrastructure, but directly supports Chinese efforts to access, develop, and exploit energy resources. This policy of full spectrum investment in the infrastructure of nations coupled with resource development achieves the diplomatic and informational objectives of promoting good will with the countries who are beneficiaries while simultaneously achieving economic goals by creating the technical capability for China to carry out and expand its energy exploration/development ventures.

According to an interview with Chinese Ambassador to the Democratic Republic of Congo Wu Zewian, "You have very favorable natural conditions (in Africa). You have an area of arable land comparable to what China possesses. Unfortunately, much of your land has been abandoned. [Therefore] you will have to create a favorable environment to attract investors...!"⁵

On the other hand, many assert that Chinese infrastructure is shoddy at best. Some of the examples of poorly built infrastructure within China's own borders that led to disasters due to collapse might offer a glimpse of this reality. According to Anne Korin, Co-Director of the Institute for the Analysis of Global Security, "I don't think there is much concern over the quality, in general infrastructure projects serve as a neat opportunity to skim for the various corrupt in-country elites in the form of inflated contracts for consulting, construction, etc. So if things crumble after they are built, no harm done, that doesn't interfere with the skimming."

China's aid is not without other significant costs as well. In return for such investment, China requires access to natural resources as well as demands for diplomatic backing for China's international political policies with a priority for supporting its "one-China policy." Subject to such terms, as of 2006, according to a report published by the International Monetary Fund (IMF), China had provided an estimated \$19 billion in financial assistance to Africa.

Two nations that have developed economic and diplomatic ties with China under such terms are Angola and Equatorial Guinea. As a result, Angola is now China's largest trading partner in Africa as well as its number one supplier of African oil, accounting for about 17 percent of China's oil imports. Similarly, Equatorial Guinea is the number two supplier of African oil to China, accounting for about four percent of China's oil imports.

These two nations have credit lines with China that total about \$14 billion. According to the IMF, this assistance is mostly for energy, telecommunications, and transportation projects.⁶

Fueling Corruption and Human Rights Abuses

Though it has been argued that China's aid has provided needed capital investment and actual infrastructure to countries desperately in need of such, there is another dark dimension to China's aid. Since much of China's infrastructure aid to Africa comes in the form of advanced credit or loans, there is little international monitoring of how such funding is actually used by those in African nations who administer it. This is troubling to many observers since dealing with Chinese companies does not come with the same ethical conditions as dealing with Western companies, which have non-governmental organizations monitoring their activities and shareholders asking questions. Western organizations, such as the World Bank, the Open Society Institute, and Transparency International work hard to achieve transparency and accountability for funds provided to various nations for the purpose of ensuring that money is spent on the projects for which it is intended and that such spending benefits the country as a whole.

In contrast, the aid from China does not have any regulatory strings attached to it such as requirements for labor agreements, observance of human rights standards, stipulations regarding environmental concerns, etc. For governments long habituated to corruption and nepotism as part and parcel of standard business practice, the lack of strings and accountability makes China a much more attractive business partner than agencies from the West that demand accountability and equitable distribution of profits among the host nation's citizens. Angola, which has been recovering from a 27-year civil war that began just before the nation won its independence in 1975, is a case in point. Today, the country is faced with enormous challenges. Approximately 70 percent of the population lives in poverty, earning less than \$1 per day. Moreover, the effects of the civil war, which destroyed much of the country's economy and infrastructure, still scar the nation with few signs of remediation by the government. One result is that Angola has evolved into a virtual one-product economy, almost entirely dependent on its oil sector for capital. Oil export accounts for over 40 percent of Angola's gross domestic product and nearly 90 percent of government revenues.

Angola exports more than 90 percent of its oil to the U.S. and China, with 46 percent of that amount going to the U.S. The difference between the U.S. and China is that Western international oil companies must contend with the Foreign Corrupt Practices Act and are under the scrutiny of NGOs, while China is not subject to such checks and balances. Not having these checks and balances in place creates an atmosphere of increased corruption. The trade in oil produces fabulous amounts of wealth. However, where that money is actually spent remains unclear since Angola's public finance seriously lacks transparency. What is clear is that relatively little of the oil revenue actually trickles down to benefit the majority of the Angolan people.

With regard to the above, Transparency International ranks Angola as one of the most corrupt nations in the world. In an internal memo leaked in 2002, the International Monetary Fund (IMF) alleged that approximately \$1 billion had disappeared from Angolan coffers the year before.⁷ According to Human Rights Watch, more than \$4 billion disappeared between 1997 and 2002.⁸ This raised plenty of red flags for anyone concerned with transparency. In response to the IMF report, Transparency International renewed its call for oil companies involved in Angola to publish what they pay to the Angolan government. However, there has been little response from the oil companies involved. Such requests to have oil companies publish what they pay have been met with controversy. Some Western companies have claimed that to publish what they pay could hurt their relations with local governments, therefore causing them to lose local oil contracts. While this may sound hypocritical on the outside, there is a difference between having oil companies publish what they pay and demanding that African governments be

required to tell where the money is being spent. To date, government income remains secret and as long as China is providing financial lines of credit to the country without strings of accountability attached, there is little incentive to adhere to Western imposed rules.

Moreover, while the country currently has ties with the IMF, any increase in Chinese oil-backed loans to fund infrastructure development could easily give the Angolan government sufficient leverage and incentive to break ties with the IMF all together.⁹

Another example of similarly shady business practices enabled by Chinese investment practices can be found in Chad. Under an agreement drawn up in 2000, the World Bank funded a 665-mile, ExxonMobil-led oil development and pipeline project in the country on the condition that the petroleum revenues be used to reduce poverty.¹⁰ This was done with the goal of providing sufficient economic support for building stability and prosperity to the country creating a source of revenue via construction of a pipeline that would move oil for export from the country to loading ports on the Atlantic Ocean.

However, Chadian President Idriss Deby disregarded and broke specific provisions of the agreement by reportedly spending some of the money on weapons to fight rebels within the borders of the country. In response, World Bank officials initially made the president return the money to the oil program. However, after Chad became a key player in the war on terrorism, then World Bank President Paul Wolfowitz in 2006 decided to change the agreement and allow Deby to purchase weapons with money earmarked for oil development provided that at least 70 percent of Chad's budget be spent on oil development.

Shortly thereafter, the full impact of Chinese economic influence on Chad began to emerge. In August 2006, Chad broke its ties with Taiwan to establish diplomatic ties with China. Then, in early 2007 rumors began to circulate that Chad wanted to replace ExxonMobil with a Chinese oil firm to get a larger share of profits and receive help from the Chinese government to work on a new development.¹¹ ExxonMobil still operates in the country, but on 20 September 2007, China's CNPC and Chad signed an agreement to build an oil refinery north of N'Djamena, the capital of Chad.¹² Since then, China has bought the rights to explore for oil in Chad.

While ExxonMobil will likely remain in the country, China is becoming a dominant influence over Chad's government both economically and diplomatically.

China and Sudan

China has similarly entwined itself economically and diplomatically with Sudan, its most controversial oil venture in Africa. This relationship seems to showcase a Chinese commitment to lock in oil deals irrespective of human rights costs.

Sudan had long sought to develop its oil resources, but could not do so independently due to its extreme poverty, ranking among the poorest countries per capita in the world. As a result, Sudan sought foreign investment and technology for exploration and development. Initially, Western companies, such as Chevron Corporation and Canadian Firms Arakis and Talisman, took part in developing oil in Sudan. However, as a result of an emerging civil war together with allegations of Sudanese government complicity in gross human rights abuses, these Western companies pulled out of the Sudan and did not return.

In contrast, China was willing to risk the impact of war on its development efforts and had little concern for Sudan's alleged involvement in human rights atrocities as long as China could get access to energy resources. As a result, the China National Petroleum Company has become the largest shareholder in a major consortium in Sudan called the Greater Nile Petroleum Operating Company, which includes as shareholders Petronas (Malaysia), Sudapet (Sudan), and ONGC (India). Among these, Beijing is the leading developer of oil reserves in Sudan,¹³ and currently possesses 40 percent of that country's local production, which amounts to six percent of China's total oil imports.¹⁴

What has made Chinese involvement in Sudan so controversial is its steadfast support for the Sudanese government irrespective of great evidence for Sudanese government complicity in the atrocities taking place. China has steadfastly continued to provide diplomatic protection to Sudan in the face of allegations by the United Nations that the Sudanese government is behind an active campaign of genocide in the western region of Darfur. Moreover, various human rights groups have repeatedly accused Sudan of systematically massacring civilians and chasing them off ancestral lands in a campaign that seems explicitly aimed at clearing populations from tribal areas for oil exploration and production.

One consequence is that rebels have repeatedly targeted oil installations in Sudan for attack, hoping to deprive the government of any means to pursue a civil war that has claimed so many lives. Yet these efforts have generally been unsuccessful because Chinese laborers were shielded from these attacks by Sudanese government troops armed with Chinese-made weapons provided by the Chinese government.¹⁵

Media reports appear consonant with such evidence from other sources. In 2000, Sudanese resistance forces were reportedly collecting photographs of

Chinese-made weapons to prove Beijing's support for Khartoum. Additionally, in July 2000, WorldNetDaily reported that Sudan had acquired 34 new jet fighters from China primarily for use against rebel forces.¹⁶ This was followed in June 2001 by a report in the Mideast Newsline asserting that Sudan had built three weapons factories with Chinese assistance to arm Sudanese troops against rebel advances.¹⁷ Still other sources have reported that China provides arms support to Sudan in exchange for oil.¹⁸

From a different perspective, some observers have opined that China's involvement in the Sudan is a classic situation of being stuck between "a rock and a hard place." For them, it is hard to accept that the Chinese government would actively endorse or promote the atrocities occurring in Darfur. China, it is argued, desperately needs energy and had spent enormous amounts of its own capital to build the infrastructure required to develop energy sources in Sudan prior to the war expanding to the degree that it has. According to Erica Downs, Research Fellow at the Brookings Institution, China is desperately in need of oil and is "stuck in a situation where it does not want to lose the capital it has invested in Sudan" to get that oil.¹⁹

Moreover, in contrast to the unsubtle implications of reports criticizing Chinese involvement in the Sudan, China maintains that its role has actually been highly beneficial to the Sudanese people overall. According to Liu Guijin, Special Representative of the Chinese Government on African issues, "the root cause of the Darfur issue is poverty and underdevelopment. On the issue of development, China has done a great deal of tangible and solid work in helping Sudan boost its economy."²⁰ Also, as Liu points out, it's "not that China does not want to obtain oil from a safe country that has more natural resources, it is just that good places have all been taken up by (Westerners)."

On the other hand, it could very well be that the unrest and instability of the Sudan is the very thing that made it a particularly attractive business venture from the Chinese perspective. As with Angola and other such nations, recognizing that few investors are willing to accept the kind of risks associated with development in turbulent and dangerous circumstances may be part of the calculus China uses in determining where it will invest since such a situation provides it with the leverage to operate with little or no competition. "It's the political situation that gives the Chinese government political and economic advantage. A typical Western firm would find it difficult to operate there and Chinese firms do not have qualms about that."²¹

Sara Flounders, co-director of the International Action Center, shared a similar view in an interview with Al Jazeera in which she attributed China's willingness to develop oil wells and pipelines online in Sudan as a shrewd, high-payoff gambit that bolstered the overall situation of the host nation. "Sudan is able

to reap the potential benefits from the resources they have.” By comparison, Flounders asserts that U.S. sanctions and “efforts to strangle and divide Sudan – would mean poverty for the entire nation.”²²

In a contrary view, the International Relations Center, in a 2004 report, showed that statistically, those countries that have become overly dependent on oil as their main export, historically tend to be poorer than other developing countries on a variety of economic indicators.²³ One conclusion of the report was that poverty within the borders of such countries, “has been exacerbated rather than alleviated over the past two decades.”²⁴

The report specifically cites Algeria, Angola, Congo, and Nigeria as some of the countries that have seen their per capita incomes pushed back to the levels of the 1970s and 80s or worse, irrespective of wealth generated by oil production and export. For example, while Nigeria had received more than \$340 billion in oil revenues, as of 2004, more than 70 percent of the population (like Angola) had been reduced to living on less than one dollar per day with per capita income plummeting to levels not seen before the 1960s. Additionally, these countries, despite their oil revenues, continue to be plagued with high infant death rate, low life expectancy, and a lack of sanitation and clean water.²⁵

According to the report, these problems are attributed in large measure to inappropriately managed and inequitable spending. The problem is compounded by the inherent volatility oil markets. For example where petrodollars replace more stable and sustainable revenue streams, the fluctuation in market prices makes national projections in development, transparency, and accountability problematic, which has an adverse impact on national economic planning.²⁶

Saudi Arabia provides a parallel case study of how high oil revenues may not necessarily benefit the country’s average citizens. Saudi Arabia, which for decades has been the number one producer of oil, is run by an oligarchy of male princes who are all descended from the founder of the modern Saudi Kingdom, King Abd al-Aziz. Since the initial discovery and development of Saudi oil fields, the Saudi royal family has historically regarded the State oil revenues as their personal possession and has characteristically used it to live opulent lifestyles, with minimal distributions to the majority of Saudi citizens. Many assert that as these princes have grown richer while the common people of Saudi Arabia have grown poorer. This appears borne out by the few statistics available from the secretive Saudi government. According to one source, the unemployment rate in Saudi Arabia during 2003 was between 20 and 30 percent.²⁷

Chinese Immigration and Trade Imbalances

Exacerbating a similar problem of inequality in the distribution of oil wealth in Africa are the countless Chinese who have been moving to African countries to take up jobs and sell Chinese products, which are much cheaper than their African rivals.²⁸ In Nigeria, for example, the number of Chinese went from 8,300 in 1993 to 45,000 in 2007.²⁹ These immigrants are not manual laborers. Many are small business merchants. The impact can be seen in the diminishing number of domestically owned businesses. Chinese nationals have over 30 solely owned companies or joint ventures in Nigeria. A case study is reflected in the emergence of China Town in Nigeria. It started as a mere trading settlement. However, according to one source, the Chinese government deliberately contrived the ploy to spread its business tentacles by other means through the establishment of the China Town in Nigeria. While China Town has the appearance of a trading market and is managed by International Cooperation Industry Nigeria Limited, only 40 of its 120 shops belong to Nigerians. The rest belong to Chinese traders.³⁰

While cheaper Chinese goods are easier for many Africans to purchase, they tend to drive out the products of local craftsmen and the businesses of local merchants, which in the long run could undermine local economies.

Conclusions

China's exploding economy demands oil. Not obtaining the necessary energy requirements could potentially result in an economic and political crisis within China. Consequently, oil is at the forefront of China's requirements list. However, as China has taken steps to grow its economy, it has come under international scrutiny for its business practices which appear to demonstrate blatant disregard for human rights. Simultaneously, poverty and human rights abuses are spreading in several African nations which in part are blamed by some observers on China's disregard for ethical business practices. Prominent examples of this sort of disregard for human rights concerns appear to be a recurring characteristic of Chinese investment in Africa. Nevertheless, China may not have any better choices at the moment, with most of the prime oil resources already controlled or dominated by Western energy companies.

What is clear is that China is providing much needed infrastructure aid to many countries lagging far behind the rest of the world in exchange for access to energy resources. Whether or not the benefits of China's aid will ever trickle down to the average citizens of these countries has yet to be seen. If experience and statistics have any bearing, then the likelihood of this happening in the term appears to be small. 🇨🇳

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Lieutenant Commander Cindy Hurst, U.S. Naval Reserve, is a political-military research analyst with the Foreign Military Studies Office. Her research is centered primarily on China's global pursuit of energy, the Geopolitics of Russian energy and security implications of liquefied natural gas. She has been published by the Military Review, PennWell's Oil & Gas Journal, the Institute for the Analysis of Global Security and the Cutting Edge News. She has also contributed a chapter to a textbook on Energy Security in the 21st Century, due out in 2009, and is currently working on writing a book on the global implications of liquefied natural gas. She received a B.A. from the University of Nevada, Las Vegas. She has served in various positions in the continental United States, Hawaii, Japan and Cuba.



US ARMY COMBINED ARMS CENTER, FORT LEAVENWORTH, KS 66027

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